

Management's Discussion and Analysis

City of Shreveport,

December 31, 2001, by permission

GASB 34 Implementation Training

Spring 2003



Management's Discussion and Analysis

The Management Discussion and Analysis (MD&A) offers the readers of the City of Shreveport's financial statements this narrative overview and analysis of the financial activities of the City of Shreveport for the fiscal year ended December 31, 2001. This information presented here should be considered in conjunction with additional information provided in the letter of transmittal which is found on pages 1-6 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at December 31, 2001 by \$697.2 million (net assets). Of this amount, \$20.0 million is unrestricted and may be used to meet the City's ongoing obligations. Governmental activities' unrestricted assets are a deficit of \$4.0 million. This indicates that the City is financing long-term liabilities as they come due rather than when they are incurred.
- The City's total net assets increased \$41.6 million. Net assets of governmental activities increased \$35.3 million and net assets of business-type activities increased \$6.3 million.
- As of December 31, 2001, the City's governmental funds reported combined ending fund balances of \$224.4 million, an increase of \$15.0 million from the prior year. Of this amount, \$7.4 million for the General Fund was unreserved, undesignated, and available for spending.
- The unreserved, undesignated fund balances for the General Fund represented 6% of total General Fund expenditures.
- The City's total debt increased due primarily to the issuance of \$33 million of general obligation bonds. The increase was somewhat offset by the reduction of general obligation bonds.

Overview of the Financial Statements

The management discussion and analysis serves as an introduction to the City's basic financial statements which are the government-wide financial statements, fund financial statements, and notes to the financial statements. Also included in the report is required supplementary information.

Government-wide financial statements. The government-wide financial statements report information about the overall finances of the City similar to a business enterprise. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations.

The statement of net assets presents information on all of the City's assets less liabilities which results in net assets. The statement is designed to display the financial position of the City. Over time, increases or decreases in net assets help determine whether the City's financial position is improving or deteriorating.

The statement of activities provides information which shows how the City's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities distinguish functions of the City that are financed primarily by taxes, intergovernmental revenues, and charges for services (governmental activities) from functions where user fees and charges to customers help to cover all or most of the cost of services (business-type activities). The City's governmental activities include general government, public safety, public works, cultural and recreation, health and welfare, community development, economic development, and economic opportunity. The business-type activities of the City include airports, water and sewer systems, transit, golf, and parking operations.

Not only do the government-wide financial statements include the City itself which is the primary government, but also its component units, Shreveport Home Mortgage Authority, City Courts, City Marshal, Downtown Development Authority, and the Metropolitan Planning Commission. Although these component units are legally separate, their operational or financial relationship with the City makes the City financially accountable. The government-wide financial statements can be found on pages 29-31 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. The City uses governmental, proprietary, and fiduciary fund financial statements to provide more detailed information about the City's most significant funds rather than the City as a whole.

Governmental funds. Governmental funds are used to report most of the City's basic services. The funds focus on the inflows and outflows of current resources and the balances of spendable resources available at the end of the fiscal year. Governmental fund statements provide a near- or short-term view of the City's operations. A reconciliation is prepared of the governmental funds Balance Sheet to the Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Balances of governmental funds to the Statement of Activities.

Fifteen governmental funds are used by the City. There are four major funds which have separately presented information in the governmental fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The major funds are the General Fund, Community Development, Debt Service, and 1999A General Obligation Bonds. The eleven nonmajor funds are presented in the aggregate in the governmental fund financial statements. The individual fund information is presented in combining statements.

The City adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 32-43 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airports, water and sewer, and other operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its dental health care, retained risk, and fleet services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Proprietary fund financial statements provide separate information for the airports and water and sewer operations, both of which are considered to be major funds of the City.

Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 44-49 of this report.

Fiduciary funds. Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations. The accounting for fiduciary funds is much like that used in proprietary funds. The basic fiduciary aggregated fund financial statements can be found on pages 50-51 of this report. The combining information is presented in the notes on pages 93-94.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 58-103 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 105-107 of this report.

The combining statements for nonmajor governmental funds, enterprise funds, and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 110-114 for governmental funds, pages 116-119 for enterprise funds, and pages 122-125 for internal service funds.

Government-wide Financial Analysis

Net assets. The following table reflects condensed information on the City's net assets:

Net Assets December 31, 2001 (in millions)						
	Governmental Activities		Business-type Activities		Total	
	2001	2000	2001	2000	2001	2000
Current and other assets	\$290.4	\$273.0	\$ 69.4	\$ 82.1	\$ 359.8	\$ 355.1
Capital assets	<u>565.5</u>	<u>535.2</u>	<u>365.9</u>	<u>343.9</u>	<u>931.4</u>	<u>879.1</u>
Total assets	<u>855.9</u>	<u>808.2</u>	<u>435.3</u>	<u>426.0</u>	<u>1,291.2</u>	<u>1,234.2</u>
Long-term debt outstanding	413.6	400.0	148.9	147.0	562.5	547.0
Other liabilities	<u>24.0</u>	<u>25.2</u>	<u>7.5</u>	<u>6.4</u>	<u>31.5</u>	<u>31.6</u>
Total liabilities	<u>437.6</u>	<u>425.2</u>	<u>156.4</u>	<u>153.4</u>	<u>594.0</u>	<u>578.6</u>
Net assets						
Invested in capital assets, net of related debt	386.4	359.5	252.8	239.0	639.1	598.5
Restricted	35.9	32.2	2.1	2.5	38.0	34.7
Unrestricted	<u>(4.0)</u>	<u>(8.7)</u>	<u>24.0</u>	<u>31.1</u>	<u>20.1</u>	<u>22.4</u>
Total net assets	<u>\$418.3</u>	<u>\$383.0</u>	<u>\$278.9</u>	<u>\$272.6</u>	<u>\$ 697.2</u>	<u>\$ 655.6</u>

At December 31, 2001, the City as a whole had assets greater than its liabilities by \$697.2 million compared to \$655.6 million at December 31, 2000 due to an increase in capital assets. The majority (92%) of the City's net assets of governmental activities are invested in capital assets (streets, drainage, construction in progress, buildings, equipment, etc.). The capital assets are net of the outstanding principal of the debt associated with their acquisition. These assets are not available for future expenditures since they will not be sold. Restrictions by out-side organizations are imposed upon 9% of the net assets. Therefore, these assets are unavailable for general expenditures but must be used for the intended purposes. Unrestricted net assets of governmental activities are a deficit of \$4 million at the end of the year, a decrease from \$8.7 million in 2000. The deficit does not mean that the City has insufficient resources to pay bills for the next year. However, it does show that on a long-term basis, the City has commitments beyond which it has current resources to fund the obligation. The largest of these commitments, besides the general obligation bonds are certificates of indebtedness which were issued to fund state pension obligations and notes issued for remodeling of the Independence Stadium.

The net assets of the City's business-type activities are \$278.9 million, an increase of \$6.3 million. The increase is a result of capital contributions to the Municipal and Regional Airports. As with the governmental activities, the majority (91%) of the net assets are invested in capital assets. The City uses these assets to provide services to the citizens. The unrestricted net assets of the business-type activities are \$24 million at December 31, 2001 compared to \$31.1 million in the prior year. Restricted assets (cash and investments) were used to acquire capital assets.

Changes in net assets. The City's total revenues and expenses for governmental and business-type

activities are reflected in the following chart:

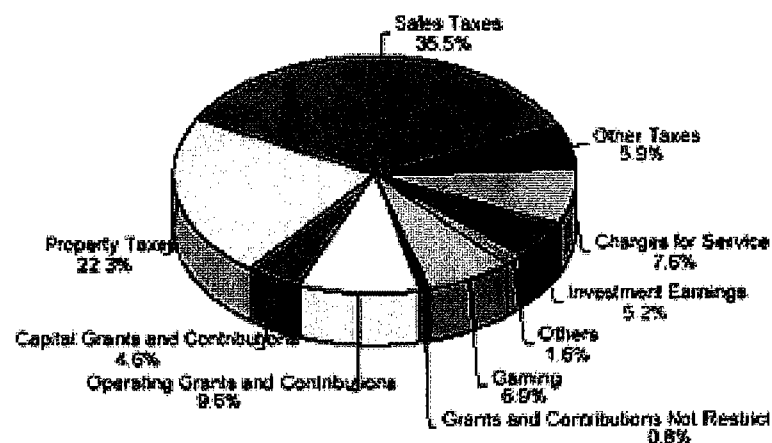
Changes in Net Assets
For the Year Ended December 31, 2001
(in millions)

	Governmental Activities		Business-type Activities		Total	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Revenues:						
Program revenues:						
Charges for services	\$ 16.2	\$ 16.9	\$ 46.0	\$48.3	\$ 62.2	\$65.2
Operating grants and contributions	20.5	15.9	2.6	2.3	23.1	18.2
Capital grants and contributions	9.7	4.3	7.7	8.8	17.4	13.1
General revenues:						
Property taxes	47.1	45.6	—	—	47.1	45.6
Sales taxes	75.5	75.6	—	—	75.5	75.6
Other taxes	12.6	11.7	—	—	12.6	11.7
Grants and contributions not restricted to specific programs	1.8	2.2	—	—	1.8	2.2
Other	<u>29.3</u>	<u>25.5</u>	<u>3.1</u>	<u>4.8</u>	<u>32.4</u>	<u>30.3</u>
Total revenues	<u>212.7</u>	<u>197.7</u>	<u>59.4</u>	<u>64.2</u>	<u>272.1</u>	<u>261.9</u>
Expenses:						
General government	20.4	24.7	—	—	20.4	24.7
Public safety	65.1	62.6	—	—	65.1	62.6
Public works	36.3	35.0	—	—	36.3	35.0
Cultural and recreation	13.6	12.5	—	—	13.6	12.5
Health and welfare	.5	.7	—	—	.5	.7
Community development	8.9	5.5	—	—	8.9	5.5
Economic development	3.6	3.3	—	—	3.6	3.3
Economic opportunity	2.7	2.2	—	—	2.7	2.2
Payments to component units	3.5	3.3	—	—	3.5	3.3
Interest on long-term debt	20.1	20.6	—	—	20.1	20.6
Municipal and regional airports	—	—	8.9	8.8	8.9	8.8
Water and sewerage	—	—	36.0	34.7	36.0	34.7
Shreveport area transit	—	—	9.0	8.9	9.0	8.9
Golf	—	—	1.5	1.4	1.5	1.4
Downtown parking	<u>—</u>	<u>—</u>	<u>.4</u>	<u>.4</u>	<u>.4</u>	<u>.4</u>
Total expenses	<u>174.7</u>	<u>170.4</u>	<u>55.8</u>	<u>54.2</u>	<u>230.5</u>	<u>224.6</u>
Increase in net assets before transfers	38.0	27.3	3.6	10.0	41.6	41.2
Transfers	(2.7)	(3.3)	<u>2.7</u>	<u>3.3</u>	<u>—</u>	<u>—</u>
Increase in net assets	35.3	24.0	6.3	13.3	41.6	37.3
Net assets January 1, 2001 (Restated)	<u>383.0</u>	<u>359.0</u>	<u>272.6</u>	<u>259.3</u>	<u>655.6</u>	<u>618.3</u>
Net assets December 31, 2001	<u>\$418.3</u>	<u>\$383.0</u>	<u>\$278.9</u>	<u>\$272.6</u>	<u>\$697.2</u>	<u>\$655.6</u>

Revenues for the City's governmental activities for the year ended December 31, 2001 were \$212.7 million compared to \$197.7 million in 2000.

- Program revenues increased \$9.3 million in 2001 compared to 2000 as a result of operating and capital grants and contributions.
 - Community Development grants increased approximately \$3.3 million covering several programs. The two programs with the largest increases were (1) the home assistance purchase program wherein prospective homeowners are given assistance with the down payment on a home and (2) the homeowner occupied rehabilitation program.
 - Federal Emergency Management Agency (FEMA) assistance increased in 2001 as a result of reimbursement for cleanup from the ice storm which occurred in the City in December 2000.
 - Capital grants and contributions were up at the end of the year due to contribution of property through donations and annexations.
- General revenues, specifically sales tax and property tax, are the largest components of revenues (58%).
 - Sales taxes represent 35% of revenues at \$75.5 million. At the same period last year, sales taxes were \$75.6 million. Retail sales are stable, even though there is no growth.
 - Property tax revenue increased 3% over the prior year. This is the expected growth, a year after property is reassessed.
 - Other revenues increased \$3.8 million. A new casino opened in mid-December 2000. Having another casino the entire year of 2001 helped to increase gaming revenues by \$7.6 million. This increase in revenue was offset by a \$2.7 million decrease in investment earnings and \$1.1 million in miscellaneous revenues. Lower interest rates in the marketplace caused the decrease in investment earnings.

Revenues by Source - Governmental Activities



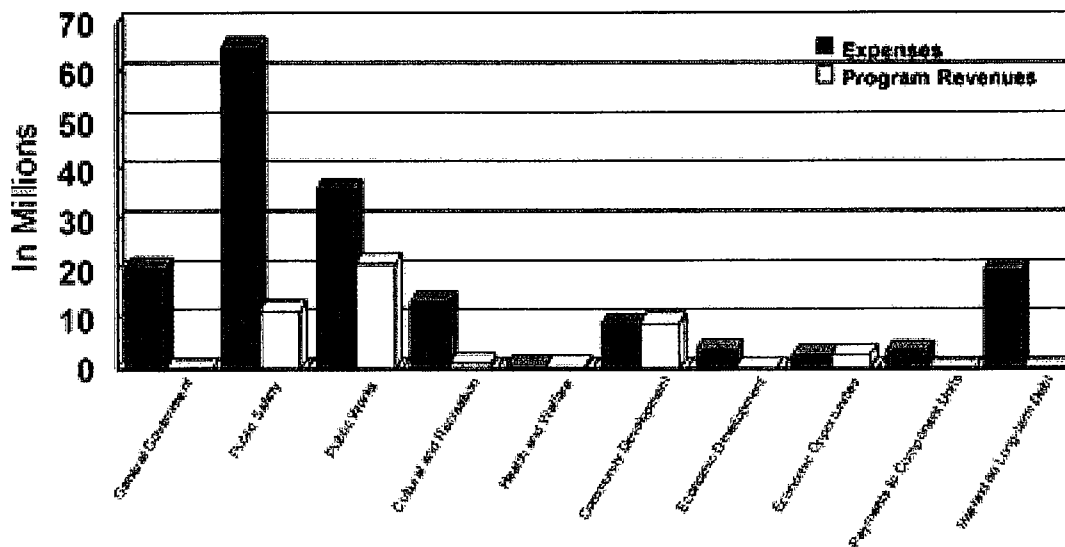
The cost of all governmental activities this year was \$174.7 million, an increase of \$4.3 million. The key factors for the increase were:

- General government expenses went down by \$4.3 million. Claims and judgments experience was better in 2001 than in 2000. In addition, other expenses were kept under control.
- Public safety expenses increased by \$2.5 million. Over one-half of the costs relate to an increase in salaries for the Fire Department. During 2001, overtime pay required by FLSA doubled.
- Cultural and recreation's increase of \$1.1 million is primarily associated with the purchase of non-capitalized equipment (\$200,000), utilities (\$150,000), Community Development payment of expenses (\$300,000) and depreciation expense (\$325,000).

- Community development increase in costs were discussed under revenues. The costs and revenues of this program are directly related since these are handled on a reimbursement basis.

The City's five largest programs are public safety, public works, general government, interest on long-term debt and cultural and recreation. The graph below shows the expenses and program revenues generated by governmental activities:

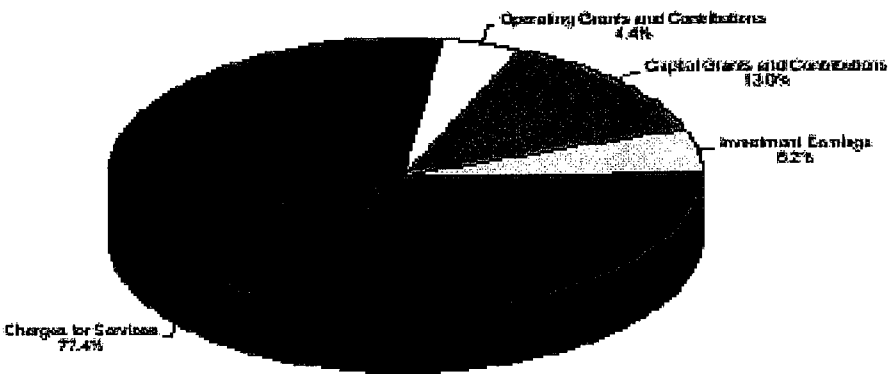
Expenses and Program Revenues - Governmental Activities



Business-type Activities. Charges for services for the City's business-type activities were \$46 million, a decrease of \$2.3 million.

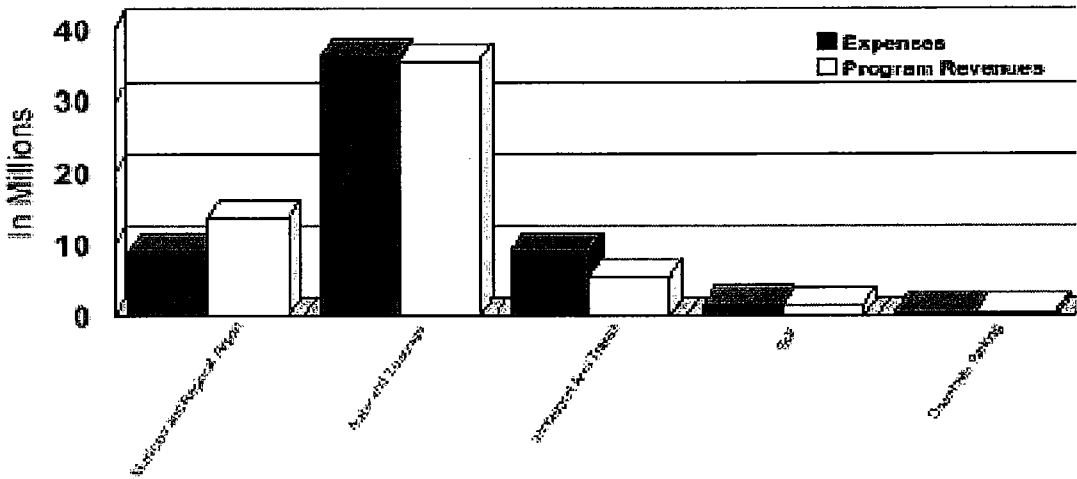
- Municipal and Regional Airports revenues were flat for the year, a minimum increase of only \$89,000. This was good news considering the effects of air travel after September 11.
- Water and Sewerage revenues decreased \$2.6 million. The department experienced problems with meter readings during the year. Meters were not being read and/or were estimated. In addition, because of the meter reading problems, service was not cut off due to lack of payment which has increased the allowance for uncollectible accounts.

Revenues by Source - Business-type Activities



The costs of these activities were \$55.8 million, an increase of \$1.6 million. The Water and Sewerage fund primarily accounted for the increase as repairs and maintenance costs went up 89%.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the City's Funds

Governmental funds. The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent and what is available for future expenditures. Did the government generate enough revenue to pay for current obligations. What is available for spending at the end of the year? The City's governmental funds for the year ended December 31, 2001 reflect a combined fund balances of \$224,474,527, an increase of \$15,039,247 compared to the prior year. Fifty-two percent of the fund balances are reserved to pay for debt service (\$33,982,628) and to pay for contracts and purchase orders which have been committed to in the prior year(s) (\$83,326,390). Management has an actual plan for forty-four percent of the fund balances (\$98,992,677) which are reported as unreserved, designated. This is primarily for the capital projects. The remainder of the fund balances are available for spending except amounts reserved for inventories and endowments.

The General Fund is the City's operating fund which provides most basic services. It's fund balance had an decrease of \$637,500 from the prior year. Revenues were relatively flat for the year, increasing by only \$1,061,139. The major revenue sources are property taxes, sales taxes, and charges for services.

- As a result of the year 2000 reassessment of property, property taxes increased \$1,376,578 in the General Fund. The economy has slowed down which is reflected in retail sales.
- For the year ended, sales taxes were flat resulting in a decrease of \$66,849 from the prior year.
- Charges for services decreased \$843,863 in 2001 from \$16,130,584 in 2000. The two factors affecting this revenue source were (1) there were fewer streets and drainage projects where inside engineers were used. Therefore, it no longer charged for time spent on governmental and water and sewer capital projects; (2) competition at the landfill has caused haulers to use a landfill in a neighboring parish. Overall, the increase in property taxes were offset by the lost of other revenues resulting in the small decrease in fund balance.
- Total expenditures of the General Fund decreased \$2,014,730 from the prior year due primarily to the decrease in general government expenditures resulting from better claims experience.

The Debt Service Fund has a total fund balance of \$33,982,628 which is reserved for payment of principal and interest on debt outstanding. The fund balance for 2001 increased by \$5 million during the year. Property taxes increased as a result of the 2000 reassessment of property and more funds were transferred from the Riverfront Development Fund which is composed primarily of the gaming revenue from casinos.

Among the governmental funds, the largest increase in fund balances was \$13,502,198 for Other Government Funds. Thirty-three million dollars of general obligation bonds were issued for capital projects in 2001. This was offset by decreases in fund balances for capital expenditures in several capital projects funds. The major expenditures were for the Independence Stadium and water treatment plan improvements.

Proprietary funds. Net assets for the Municipal and Regional Airports increased \$5 million primarily as a result of capital contributions from FAA for the noise abatement program. Property surrounding the Regional Airport was purchased in connection with this program. Water and Sewerage's net assets increased by only \$1.3 million, revenues were down and expenses were up. Operational changes affected the fund. The problems associated with a decrease in revenue have been discussed already under changes in net assets for business-type activities.

General Fund Budgetary Highlights

During the year, the City Council revised the City's budget several times. After the first quarter, amendments and supplemental appropriations were approved to reflect the actual beginning fund balances estimated during the budget process which must be submitted by October 1 for the next year. Additional changes were made as new information indicated a need. The major differences between the original budget and the final budget were primarily the addition of \$1.6 million for sales taxes, \$1.4 million for property taxes, and \$3.8 million for external service charges. The increase in appropriations were distributed to Public Works for contractual services, \$668,900 for claims, and spread throughout the fund for various other needs. During the year, revenues came in more in line with the original budget. However, departments kept their expenditures under control which resulted in a minimum decrease in fund balance.

Overruns in appropriation at the legal level of budgetary controls were experienced by:

- **Other-unclassified**

Materials and supplies exceeded the budget by \$1,767. The budget was reduced from the prior year and the total budget is \$1,000.

Interest and civic appropriations exceeded budget by \$277,022 due to lower than anticipated operating funds. No amounts were budgeted for interest expense.

- **Public Safety**

Salaries, wages, and employee benefits for the Fire Department exceeded the budget by \$132,729 due to an increase in compensation later in the year which was not anticipated in the original budget.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets as of December 31, 2001 for its governmental and business-type activities was \$931.4 million, net of depreciation as reflected in the following schedule.

Capital Assets
December 31, 2001
(net of depreciation in millions)

	Governmental Activities		Business-type Activities		Total	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Land	\$ 73.7	\$ 70.8	\$ 19.6	\$ 6.6	\$ 93.3	\$ 77.4
Construction in progress	187.7	174.4	72.1	66.2	259.8	240.6
Buildings	50.5	37.2	39.2	36.0	89.7	73.2
Improvement other than buildings	12.2	12.2	11.6	12.3	23.8	24.5
Equipment	24.9	27.1	.5	.3	25.4	27.4
Distribution and collection systems	—	—	222.9	222.6	222.9	222.6
Infrastructure	<u>216.5</u>	<u>213.5</u>	<u>—</u>	<u>—</u>	<u>216.5</u>	<u>213.5</u>
Total	<u>\$565.5</u>	<u>\$535.2</u>	<u>\$365.9</u>	<u>\$344.0</u>	<u>\$931.4</u>	<u>\$879.2</u>

Major additions to capital assets during the current fiscal year included the following (in millions):

Convention Center construction paid for with general obligation bonds	\$ 5.9
Independence Stadium improvements, paid for with general obligation notes	14.9
Amiss Water Treatment Plant improvements, paid for with water and sewer revenue bonds	10.2
Lucas Wastewater Treatment Plant improvements, paid for with water and sewer revenue bonds	2.1
Airport property acquisition program, paid for with Federal Aviation Authority revenue, State grant, and Airport revenues	<u>3.9</u>
	<u>\$37.0</u>

Current amounts committed call for spending an additional \$74.2 million on the convention center. Resources on hand from bond proceeds will be used to fund this project. The water and sewer system plans to spend an additional \$2.7 million on the Amiss Water and the Lucas Wastewater Treatment Plants. The water and sewer system plans to borrow the funds to complete the projects.

Detailed information on the City's capital assets can be found in Note III E on pages 74-77 of the report.

Long-term debt. At year end, the City had \$550 million in bonds and other lending agreements as shown in the following table.

Outstanding Debt
General Obligation and Revenue Bonds
December 31, 2001
(in millions)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
General obligation bonds	\$303.3	\$287.3	\$.6	\$.8	\$303.9	\$288.1
Revenue bonds	—	—	142.5	140.5	142.5	140.5
Other lending agreements	<u>98.5</u>	<u>94.1</u>	<u>5.1</u>	<u>5.1</u>	<u>103.6</u>	<u>99.2</u>
Total	<u>\$401.8</u>	<u>\$381.4</u>	<u>\$148.2</u>	<u>\$146.4</u>	<u>\$550.0</u>	<u>\$527.8</u>

New debt was added during the fiscal year. The principal debt issued was \$33 million general obligation bonds to improve streets, drainage systems, parks, a jail, and provide for fire equipment and facilities. Additional debt of \$8.3 million was issued for improvements to the water and sewer system.

The City's general obligation bonds continue to maintain an A1 rating from Moody's Investors Service and an A+ rating from Standard and Poor's Rating Service.

State statutes limit the amount of government obligation debt a municipality may issue at a maximum of 10% of the assessed valuation for any purpose. The maximum may be exceeded if the aggregate issued for all purposes does not exceed 35% of the total assessed valuation. The City's outstanding general obligation debt is below the state limit. Approximately \$50 million of additional general obligation bonded debt is available for issuance.

Detailed information on the City's long-term debt can be found in Note III H on pages 79-92 of the report.

Economic Factors and Next Year's Budgets and Rates

In setting the budgets for 2002, the City considered a number of issues with City-wide impact. One of the most important factors was the fact that the local economy is affected by events outside its borders. Citizens are not shopping as much, therefore, sales taxes are not projected to increase. Air travel has picked up but there is expected to be greater costs for security. Unemployment is expected to remain near its current level until improvements are made in the national economy.

Rate increases were approved for next year's budgets in the business-type activities. The City Council approved rate increases for the Water and Sewerage Fund. Increases in rates were approved in nonmajor business-type activities for the bus system effective January 1, 2002. This was the first bus fare increase in seven years. The Golf Fund will have modest increases in greens and cart rental fees for 2002.

Overall, there are no major new programs added to the 2002 budget.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Shreveport, 505 Travis Street, Suite 670, Shreveport, LA 71101.

